

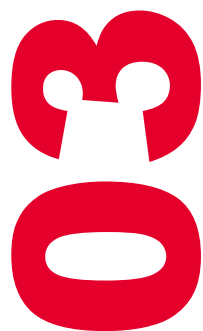


COMMERCIAL REAL ESTATE | RUSSIA

#MARKETBEAT

Cushman & Wakefield Research

Q1 2017



SECTION 1 OUTLOOK

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SECTION 4 OUR TEAM

Information about Cushman & Wakefield in Russia, Research department contact details

The best Research Team in Russia according to Euromoney Real Estate Awards in 2012, 2014 and 2016.

OUTLOOK

Although Q1 demonstrated signs of recovery, the economy still performed sub par expectations. Hopes that sanctions will be eliminated soon have vanished. The government insists on the increase of taxes, retail sales are still in decline.

The real estate market will not receive any support from economic growth, however predictability of the market creates room for individual successful strategies.

IN SEARCH OF INVESTMENT IDEAS

THE ECONOMY CONTRACTION HAS BEEN STOPPED, ASSET RE-PRICING IS OVER, MARKET PLAYERS ARE REFINING STRATEGIES.

In Q2 we expect rents to strengthen a little due to the fact that cheaper offers are gone from the market.

A stable RUB exchange rate will help to bring back the confidence into the commercial real estate market.

The government will look for additional sources of funding ranging from the introduction of sales tax to issuing government bonds.

The Kremlin started the process of replacing Governors in a number of regions. The change in administration will create regional opportunities for real estate development.

BUSINESS

HOW GLOBAL CORPORATIONS SEE THE SITUATION

Source: Russia Business Gossip and Corporate Figures Report by DT Consulting

<http://www.ceemeabusinessgroup.com/>



Some companies are suffering, business is not what it was, the outlook in these sectors is not good for the short-term, so the company downsizes, cuts back, freezes investment. In some extreme cases the company reverts to a cash cow model and market share is of little importance while the bottom line dominates.

The reverse is those companies which are growing sales by 10-30% and are taking the view that they want continued growth and more market share: these companies are investing and making long-term plans for Russia.

Equally some companies are doing just as well but global headquarters are being stingy and not putting enough investment into the strategy and trying to do things “on the cheap”. This causes strain within the Russian organization.

Overall a concern of local managing directors is that their company is not building a sustainable model for the future: the last 2-3 years have been extremely hard work and the goal is to squeeze even more out of Russia at top-line, bottom-line and market share.



We have managed 20% average sales growth in the last 3 years with very good profits. But the emotional cost has been high to the staff. We can't just plough on auto-pilot.



MACROREVIEW

The latest forecast review improves short term indicators, however suggests that the economic recovery may be slower than was previously expected.

GDP GROWTH

2016	2017	2018	2019
-0,51%	1,20 %	1,33%	1,21%

MACRO FORECAST

BUDGET DEFICIT (% of GDP)

2016	2017	2018	2019
-3,6%	-2,3%	-2,4%	-1,5%

RUB/USD EXCHANGE RATE

2016	2017	2018	2019
67,06	59,31	58,53	57,75

HOUSEHOLD CONSUMPTION

2016	2017	2018	2019
-3,33%	0,23%	1,64%	1,97%

CPI

2016	2017	2018	2019
7,04%	4,64%	4,15%	4,0%

INTEREST RATE

2016	2017	2018	2019
12,67%	11,21%	9,51%	8,00%

Source: Oxford Economics (03/2017)

MACRO SUMMARY

AFTER TWO YEARS OF RECESSION

-0.5%

GDP growth in 2016

According to Oxford Economics

1.2%

GDP growth outlook for 2017

According to Oxford Economics

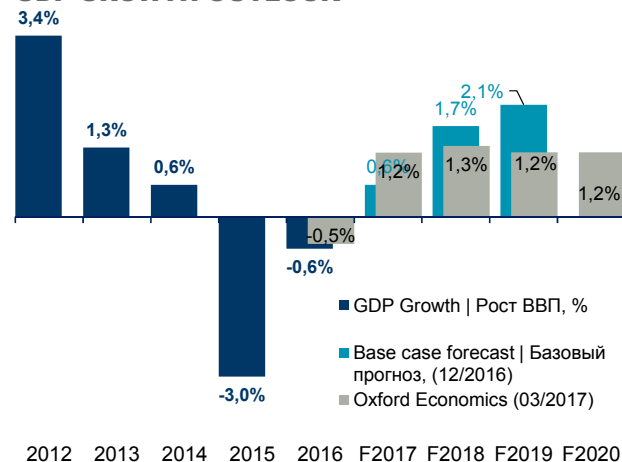
The recession is over, but the recovery rate is less than modest. Russian authorities do not expect the removal of sanctions in the mid term, so they are preparing for an extended stagnation.

But this does not mean that all industries will be underperforming. In 2017, growth drivers and outsiders will be clearly identified.

Low inflation is the major challenge for business. The gap between high interest rates and low inflation will keep money expensive.

Within the slow growth environment this will create pressure on both households and businesses.

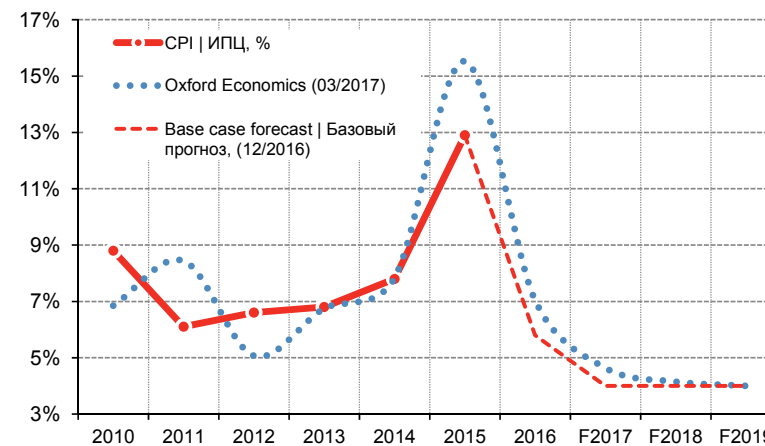
GDP GROWTH OUTLOOK



2012 2013 2014 2015 2016 F2017 F2018 F2019 F2020

Source: Rosstat, the Ministry of Economics, Oxford Economics

INFLATION



CUSHMAN & WAKEFIELD RESEARCH DEPARTMENT | 6

HOUSEHOLD DEBT

MORTGAGE BOOM IS ENDING

181

'000 Rubles

Average household
debt

11.9%

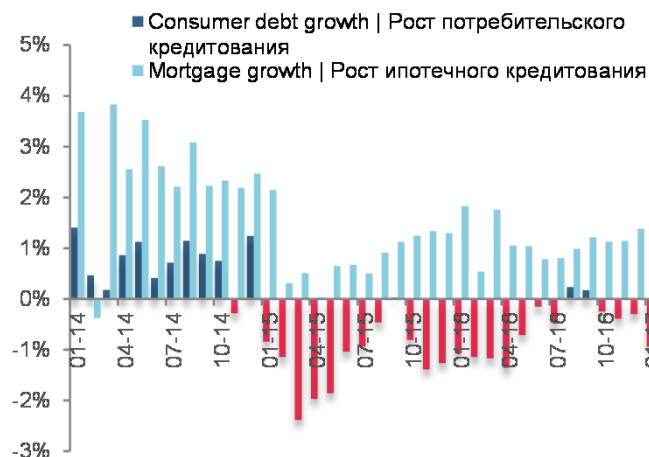
Weighted average

MORTGAGE RATE

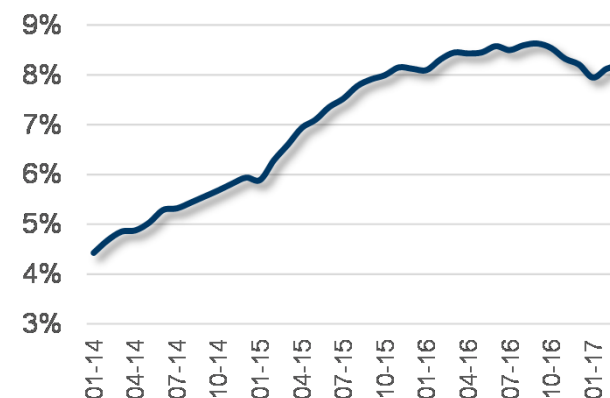
The mortgage market that was driving household debt over the course of 2015-2016 is cooling down. In 2017 the government closed the mortgage support program and it's likely that the mortgage debt will stop growing. Consumer debt continues to shrink.

The share of overdue debt had stabilized at 8%. However it is likely that by the end of 2017 it will reach 9%.

HOUSEHOLD DEBT M-o-M CHANGE



SHARE OF OVERDUE DEBT, %



CORPORATE DEBT DEBT IS LOW

7.2%

Overdue debt
ACROSS ALL SECTORS

23%

Overdue debt
IN CONSTRUCTION

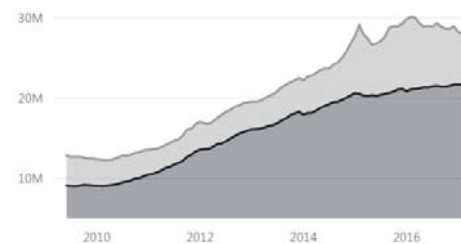
Corporate debt has been diminishing since the beginning of 2016 mainly due to a decrease in foreign currency loans. Ruble appreciation led to a reevaluation of f.c. loans.

The most noticeable debt decrease was in the wholesale and retail sales, which lost about 15% in debt over 12 months.

In 2017 the trend of the previous years remains in place. The construction sector is still suffering from bad debts. The share of the overdue debts in construction has stabilized at 23%, but is more than 3 times higher than across the economy in general.

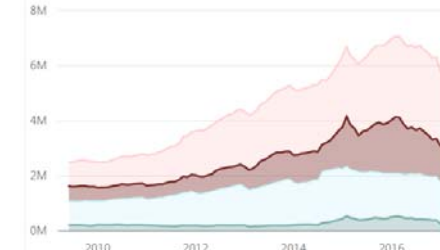
CORPORATE DEBT AND OVERDUE DEBT

Total debt, mn RUB



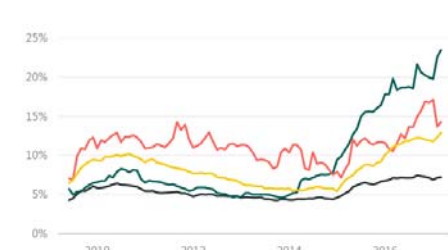
● In Rubles
● In foreign currencies

Construction and real estate, mn RUB



Construction Real estate
● F.C. ● RUB ● F.C. ● RUB

Overdue debt



● All sectors ● Real estate
● Construction ● Trade

CAPITAL MARKETS

In 2016, the total volume invested in the commercial real estate in Russia was 3,9 billion Euro
We expect slight increase in volumes in 2017 and return of foreign investors to the Russian market.



ACTUAL INVESTMENT VOLUMES REAL CAPITAL ANALYTICS

2016	Q1 2017
3.9	0.6
<i>Billion Euro</i>	<i>Billion Euro</i>

EXPECTED TOTAL INVESTMENTS

2017	2018
4.2	5 
<i>Billion Euro</i>	<i>Billion Euro</i>

PRIME CAPITALIZATION RATES

OFFICES

10.50%



Starting from 2017 Cushman & Wakefield uses Real Capital Analytics investment deals data.

SHOPPING CENTERS

11.00%



There is a certain discrepancy with the previously reported data due to slight differences in methodology.

WAREHOUSES

12.75%



Source: Cushman & Wakefield

CEE INVESTMENT MARKET

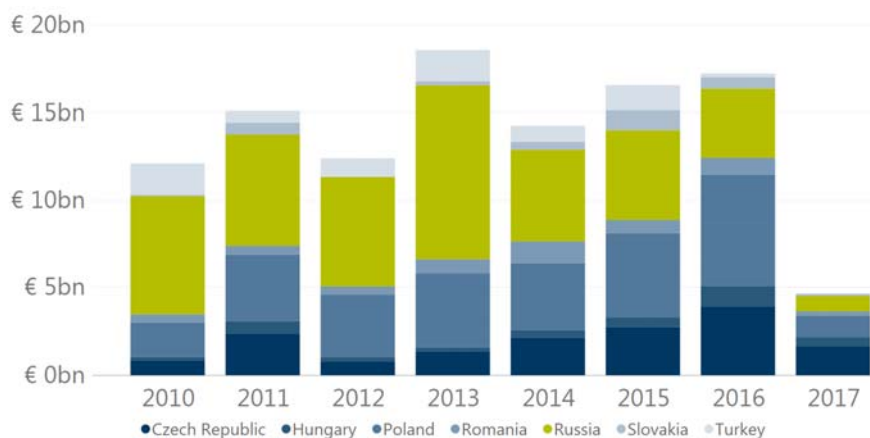
DECREASE OF INVESTMENT ACTIVITIES IN RUSSIA WAS COMPENSATED BY GROWTH IN POLAND AND CZECH

In 2016 real estate investments in CEE region reached 15 billion Euro

25%

*Share of Russia
In CEE investment
market*

CEE INVESTMENT VOLUMES



Russia's share in the CEE real estate investment scene has decreased significantly since 2014. However it was successfully compensated by Poland and Czech Republic.

With the recovery in Russia we expect significant growth in the CEE region as a whole.

This year CEE investments may reach 20 billion Euro.

INVESTMENT VOLUMES

INVESTMENT MARKET IS STABILIZING

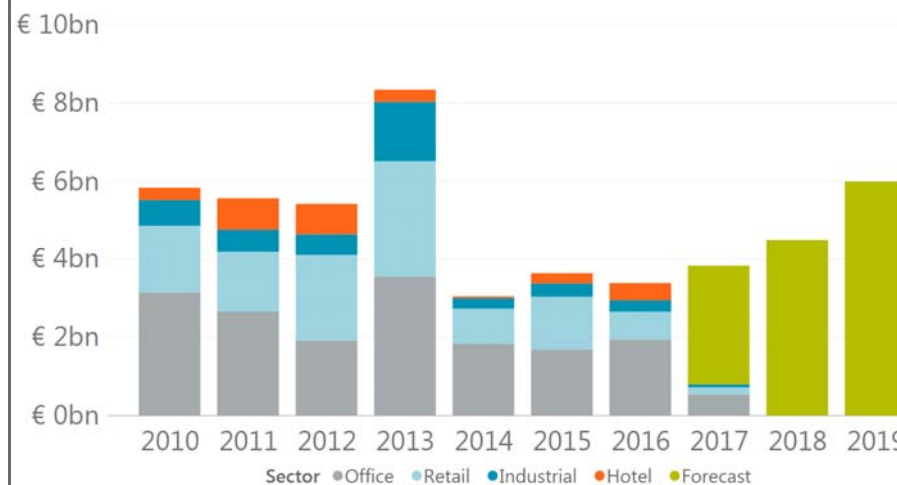
We expect a slight growth in investments along with a change of their structure towards institutional buyers.

4.2

Billion Euro

Expected investment volumes in Russia in 2017

INVESTMENT VOLUMES IN RUSSIA, EURO



Real estate investments in Russia had stabilized at just below 4 billion Euro. In 2017 we expect a minor growth of real estate volumes.

However foreign investors will start appearing on the market and we will see some deals based on the cap rates. In 2016 foreign investors accounted only for 6% of the market/ In Q1 2017 their share was 25%.

CAPITALISATION RATES

CAP RATES ARE EXPECTED TO **CONTRACT** IN Q2

Gap between expectations of buyers and sellers is still wide.

9.75%

Central Bank key rate

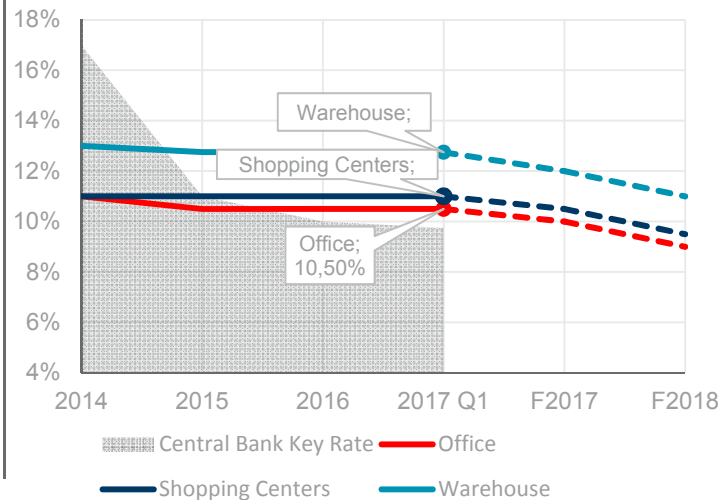
Outlook - decrease

10.5%

Cap rate for offices

Outlook - decrease

CAPITALISATION RATE



Source: Cushman & Wakefield

The difference in expectations of buyers and sellers remains wide. Cap rates are stable and investment activity is still low.

We expect minor **compaction** of cap rates in 2017.

In spite of the expected cut in the Key Rate by the Central Bank, the real cost of money will remain very high due to the low inflation.

THE BIGGEST DEALS

THE TOP FIVE DEALS – 65% OF THE TOTAL VOLUME

160

Million Euro

**THE BIGGEST DEAL in
2017**



Property	Sector	Quarter	Investor	Volume, Mn Euro
Leto City	Retail	2017 H1	RosEvroDevelopment	163
Voentorg	Office	2017 H1	Fosun Int'l Ltd	160
Metropolis II	Office	2017 H1	Hines	105
Legion II (phase 2)	Office	2017 H1	UFG Real Estate	95
Sretenka 18	Office	2017 H1	PIK	44

REAL CAPITAL ANALYTICS

OFFICES

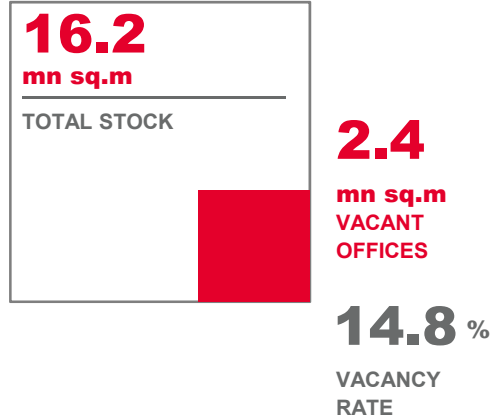
The first quarter of 2017 has continued the market recovery trend of 2016.

RENTAL RATES

CLASS A	CLASS B	CLASS A&B
\$468	\$234	\$276



SHARE OF VACANT OFFICE SPACES



CONSTRUCTION

21,000 SQ.M

NET ABSORPTION

195,000 SQ.M

TAKE-UP

589,000 SQ.M

Source: Cushman & Wakefield

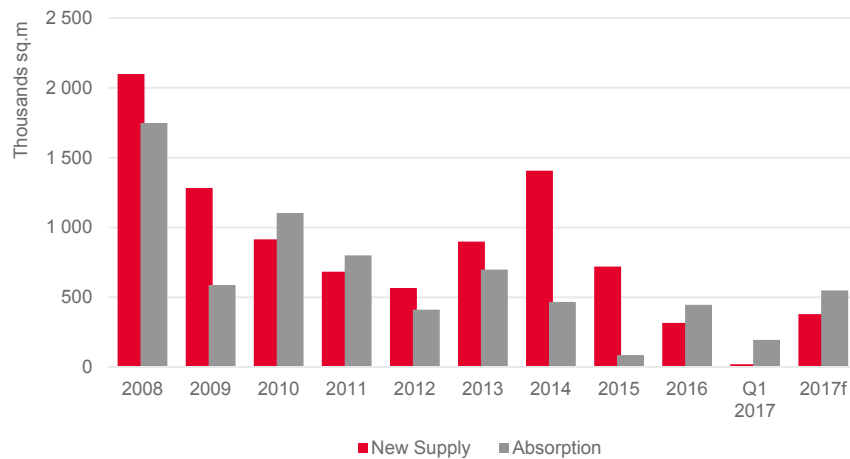
ABSORPTION

DEMAND FOR OFFICES EXCEEDS NEW SUPPLY

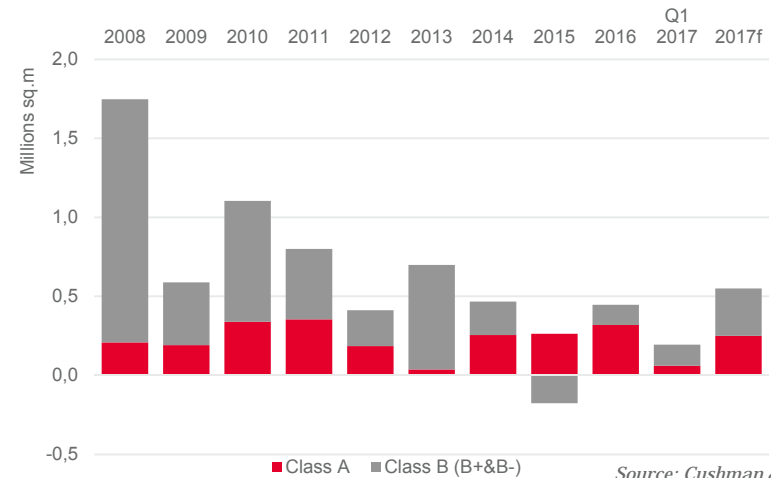
195 ABSORPTION IN Q1 2017
'000 sq.m

21 VOLUME OF NEW
CONSTRUCTION IN Q1 2017
'000 sq.m

ABSORPTION AND NEW CONSTRUCTION



ANNUAL ABSORPTION BY CLASSES, BY YEARS



Source: Cushman & Wakefield

DEMAND

TAKE-UP VOLUME IS ONE OF THE HIGHEST

1,030 WERE EXECUTED IN
Q1 2017
new deals

589 TAKE-UP VOLUME IN Q1 2017
'000 sq.m

MAJOR DEALS IN Q1 2017

COMPANY	AREA	BUILDING	CLASS / SUBMARKET
Rosselkhozbank	9,200 sq.m	Krasnogvardeisky 1st proezd, 7	B+ / Downtown
Loko Bank	4,467 sq.m	SkyLight	A / Central
Central agency of translations	2,700 sq.m	Empire	A / Downtown
Ingrad Realty	2,523 sq.m	Hermitage Plaza	A / Central
X5	2,410 sq.m	RTS	B- / OTA
Herbalife	2,079 sq.m	Citydel	A / Central
Megapolis TC	1,719 sq.m	Mercury City	A / Downtown

The observed office take-up in Q1 2017 was one of the largest quarterly figures. Total take-up for the first three months of 2017 was 589,000 sq.m, which is only exceeded by the volume in Q2 2012. Altogether there were 1,030 new rental and owner occupation purchase deals.

Compared to 2016, when approximately one half of the total take-up consisted of purchases of the entire buildings and blocks in business centers, the proportion of such deals in Q1 2017 made up only about 10% of the total volume.

Net absorption in Q1 2017 amounted to 195,000 sq.m, which is double the figure for the whole 2015 (87,000 sq.m).

While absorption in 2016 mainly happened in Class A, in 2017 the tendency was reversed— the volume in Class B was double that in Class A.

Source: Cushman & Wakefield

NEW SUPPLY

THE RECOVERY OF CONSTRUCTION ACTIVITY IS BEING POSTPONED

NEW CONSTRUCTION BY CLASSES



21,000 sq.m of new office premises were delivered in Q1 2017, which is the lowest figure since the beginning of the market development in the 2000s.

The Q2 and Q3 numbers, however, are expected to increase considerably, since several large office schemes are expected for delivery.

The delivery schedules have increased significantly – some delivery dates are delayed by one or two years.

There are barely any new projects, as developers are only willing to pursue “built to suit” schemes.

Overall, 2017 is expected to bring 380,000 sq.m of new construction volume – two skyscrapers in Moscow CITY alone providing 240,000 sq.m.

Source: Cushman & Wakefield

AVAILABILITY

VOLUME OF VACANCIES IS DECREASING

14.8

%

**VACANCY RATE
IN THE END OF Q1
2017**

2.4

mn sq.m

**EXISTING
AVAILABILITY**

The minimal volume of new construction together with significant volume of demand for high-quality offices has led to reduction in the vacancy rate.

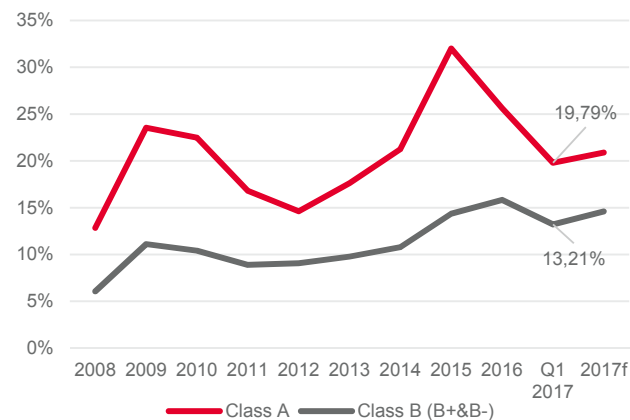
In Q1 2017 the average vacancy rate decreased by 2.8 pct.

A high vacancy level of the projects expected for completion in 2017 will not let the indicator to decline at such rates further.

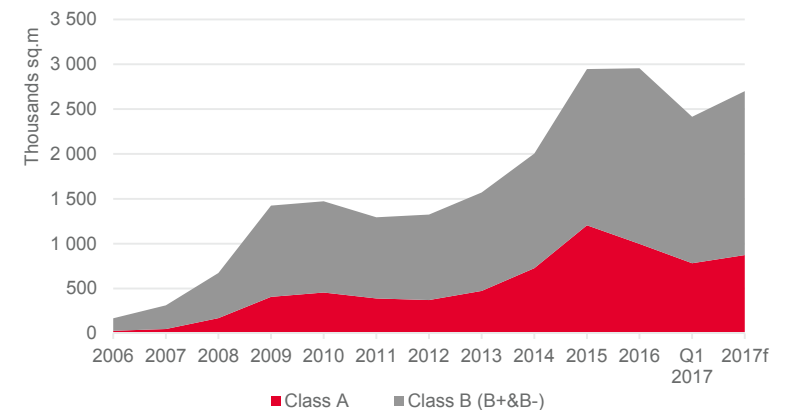
By the end of the year the vacancy rate is likely to be higher than the Q1 2017 figure.

There are office premises of different areas and conditions in both class A and B properties practically in all districts of Moscow. However at the current low volume of the new supply this situation may change soon enough.

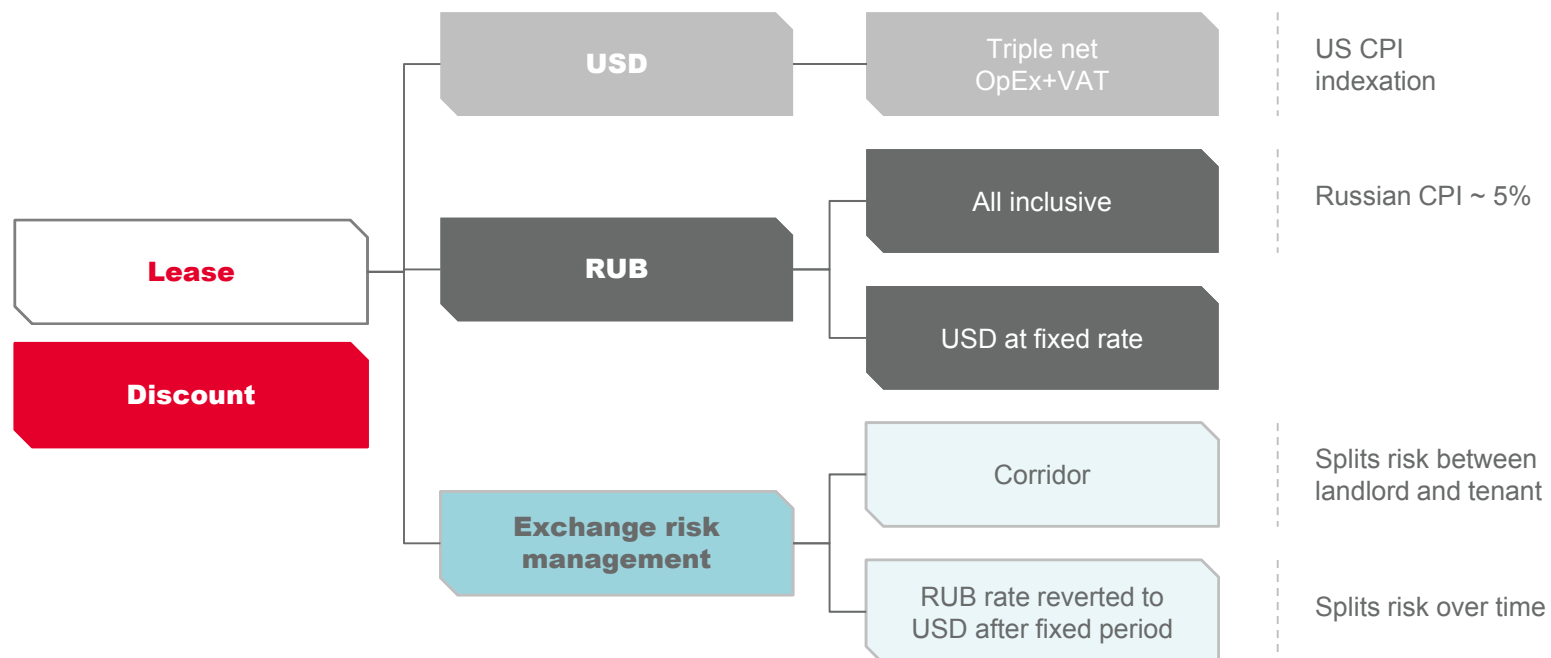
VACANCY RATES



VACANT PREMISES



RENTAL RATES DEDOLLARIZATION



RENTAL RATES

RENTAL RATES* ARE STABLE

93

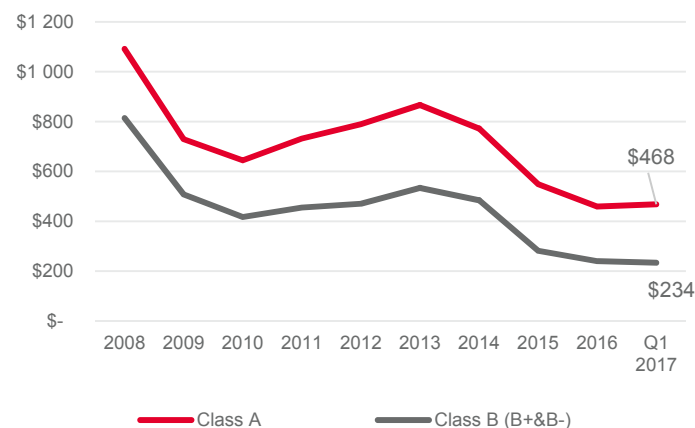
%

**SHARE OF RUSSIAN
RUBLE DEALS IN Q1
2017**

**hereinafter all rental rates are net
of OPEX and VAT*

Constantly decreasing over the course of the previous year ruble rates resulted in a new contract-making approach, especially among developers of Class A buildings. For example, dollar-nominated rental rates are often offered in a suitable currency exchange corridor. This allows to use US dollar CPI for lease agreement indexation, and in the long term can be more profitable for tenants than ruble deals. At the same time, all the leasing deals observed in Q1 2017 were ruble-nominated.

RENTAL RATES IN US DOLLARS VALUE



RENTAL RATES IN RUSSIAN RUBLES VALUE



Source: Cushman & Wakefield

RUBLES VS DOLLARS

RUBLE STRENGTHENED

468

**DOLLAR EQUIVALENT
ALL A CLASS DEALS**

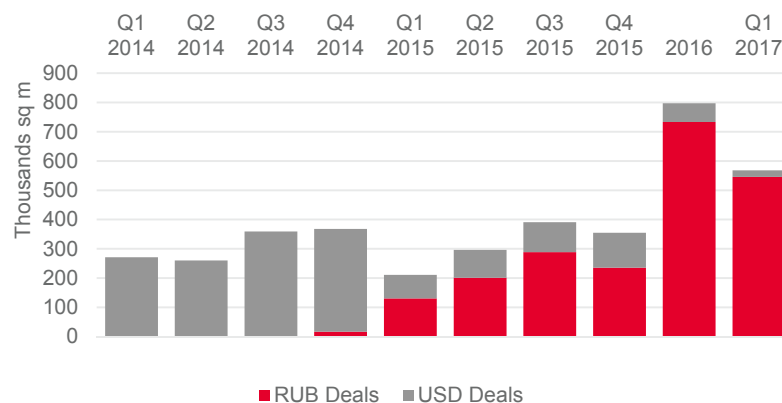
US Dollars per sq.m per annum

13,925

**RUBLE EQUIVALENT
ALL DEALS IN B CLASS**

Rubles per sq.m per annum

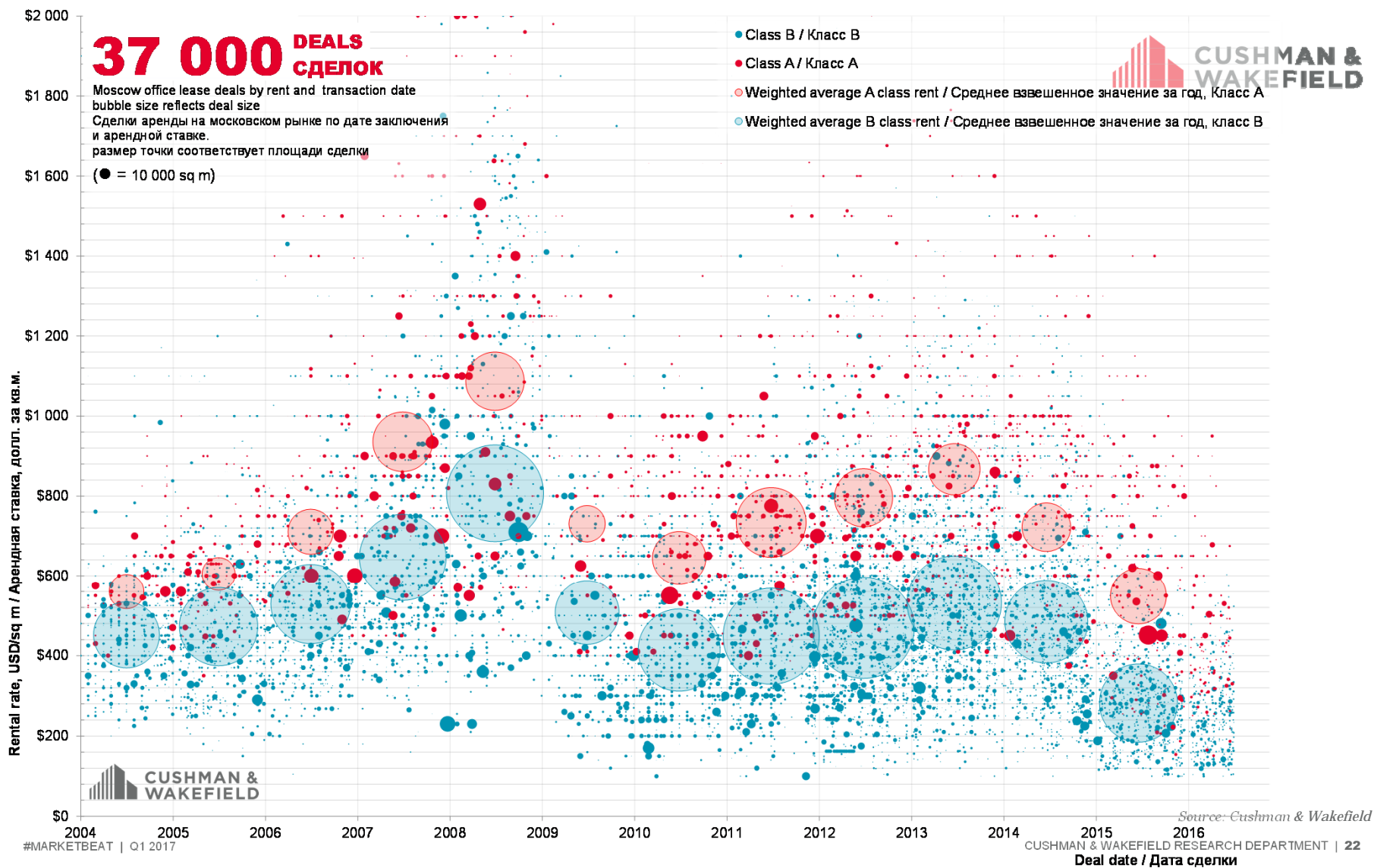
RUBLE DEALS VS DOLLAR LEASE DEALS



LEASING DEMAND AND RENTAL RATES

Class	Deal Currency	Deals Volume, sq.m	Rate
A	USD	19,714	\$638
	RUB	93,962	24,589 rubles
B+ & B-	RUB	454,977	13,925 rubles

Source: Cushman & Wakefield



RETAIL

The forecasted growth of the retail sales and real disposable income in 2017 will not be decisive. It will not bring noticeable changes to the market activity, but will support the growing confidence of the market players.

The main market indicators will remain stable due to decreasing construction activity.



Source: Cushman & Wakefield Research

11 %

VACANCY RATE
(all shopping centers, Moscow)

145 '000 RUB

PRIME RENTAL RATE INDICATOR

161 '000 SQ.M

NEW CONSTRUCTION, MOSCOW, FORECAST FOR 2017
(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

4.9 MN SQ.M

TOTAL QUALITY STOCK, MOSCOW
(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

CONSUMER MARKET. RUSSIA

CONSUMER EXPECTATIONS ARE STILL PESSIMISTIC

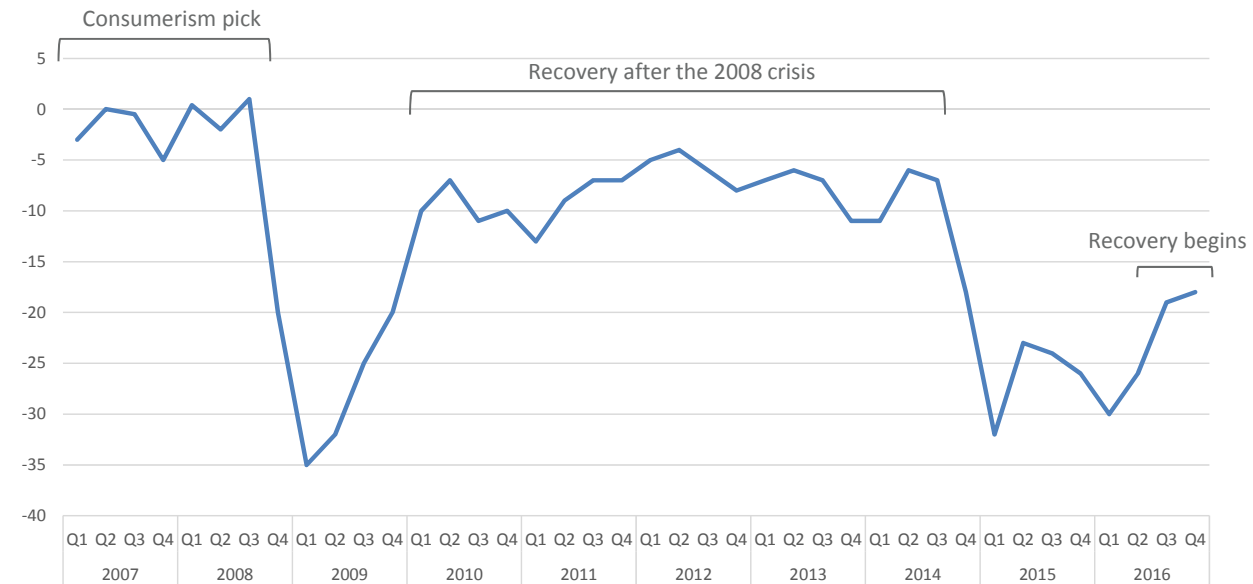
24,5

'000 RUR per month

**Consumer spending,
Q4 2016 (average for
Russia)**

**DESPITE THE
NOTICEABLE
RECOVERY, CONSUMER
CONFIDENCE WILL
STILL STAY
COMPARATIVELY LOW
IN 2017-2018**

RUSSIA: CONSUMER CONFIDENCE INDEX



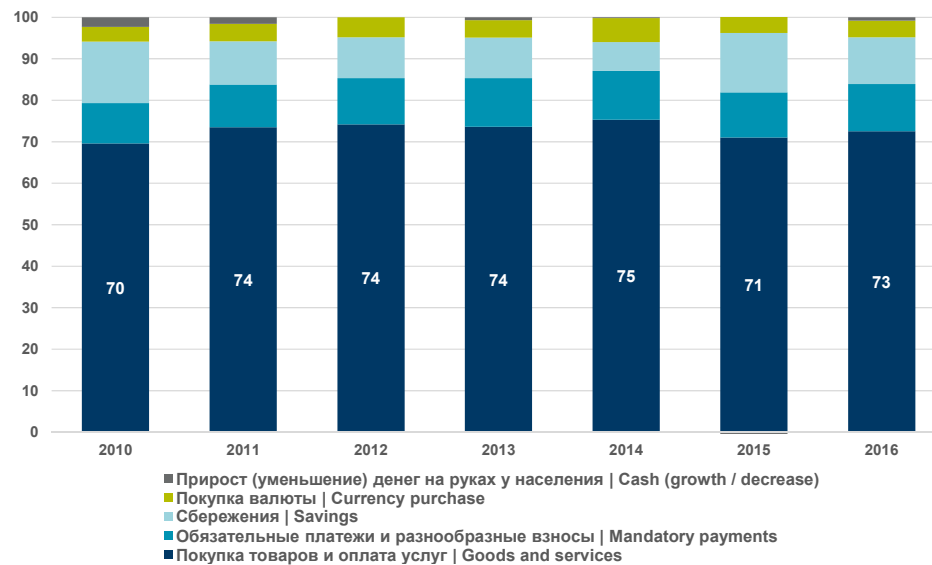
Source: Rosstat

CONSUMER MARKET. RUSSIA

THE WORST IS OVER FOR THE CONSUMER MARKET. CUSTOMERS HAVE NOW MINIMIZED RETAIL SPENDING.

An increasing share of retail spending in the total expenditure on the back of the decreasing real income shows an ending of consumer behavior optimization.

RUSSIA: CONSUMER SPENDING STRUCTURE



Source: Rosstat

Real income was still decreasing in 2016 while the share of retail spending in the total consumer expenditure grew compared to 2015. Most likely, this means that the customers have decreased spending to the minimum.

People are now spending more than the last year - percentage of savings declines and cash is increasing.

Taking into consideration those assumptions as well as low base effect (retail sales were dramatically decreasing for two years) the forecasts show recovery of retail sales in 2017. However, the pace of recovery will be slow.

Neither this year nor in 2018 there are any prerequisites for explosive optimism - after a prolonged recessionary period, headline economic indicators and consuming capacity are now picking up by tiny steps (e.g., real income growth for the two coming years is only 0,2-0,8% annually).

CONSUMER MARKET. RUSSIA AND MOSCOW

2017 IS A CRUCIAL POINT FOR THE CONSUMER MARKET

In 2017 the consumer market will stop shrinking. Conspicuous growth is expected in 2018.

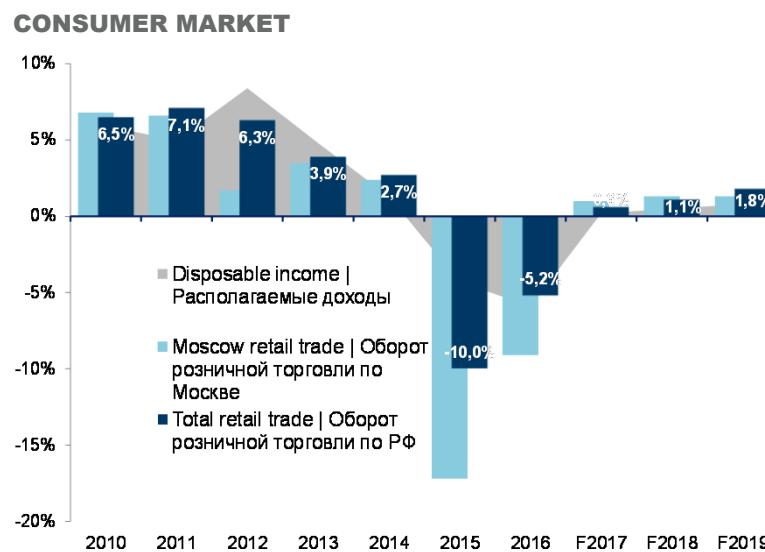
REAL DISPOSABLE INCOME IN RUSSIA

-5.9%

In 2016

+0.2%

In 2017 (forecast)



Source: Rosstat, Ministry of Economic Development (03/2017 forecast)

Consumer spending on goods and services is now at near minimum levels. The pace of retail sales' decline has slowed down noticeably in H2 2016, some retailers reported increasing consumer activity. While a fall of the Christmas sales was unexpected for many retailers.

Decline of real disposable income was partly compensated by decreasing share of savings in the total expenditure structure.

Base forecast scenarios from different economists differ by tenths of percentage points and all predict a slow market recovery. In 2017 retail sales will most likely keep the level of the previous year.

Retail sales will only come back to the 2013 level by 2025.

CONSUMER MARKET. MOSCOW

OPTIMISTIC FORECAST FOR 2017 – GROWTH, CONSERVATIVE - STABILIZATION

RETAIL SALES IN MOSCOW

1,0%

In 2017 (forecast)

-9,1%

In 2016

-17,2%

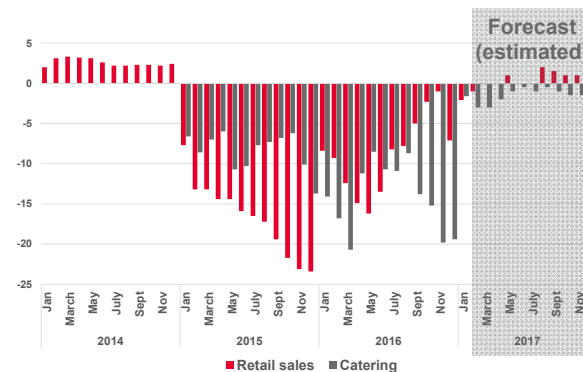
In 2015

The pace of the retail sales recession declined substantially in H2 2016. The Moscow administration forecasts 1% growth in 2017. Current prerequisites suggest that even a traditional downward correction of the forecast will keep the indicator in a positive zone.

In other large cities (St. Petersburg, Ekaterinburg, Kazan) the positive trend was even more noticeable in 2016.

The catering turnover decline for 2016 in Moscow was even more noticeable than the year before. Recovery in the segment is expected to follow retail sales pick up. Even a low base effect will not be realized until 2018.

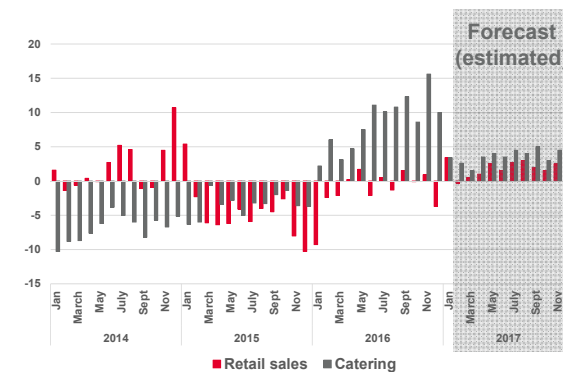
CONSUMER MARKET*, MOSCOW



* % to the comparable period of the previous year

Source: Mosstat, Petrostat (03/2017)

CONSUMER MARKET*, ST. PETERSBURG



SHOPPING CENTRES. MOSCOW AND REGIONS

3 SHOPPING CENTRES WERE OPENED IN Q1 2017

Developers are expanding geographical coverage— construction is starting in the remote regions.

20.4

mn sq.m

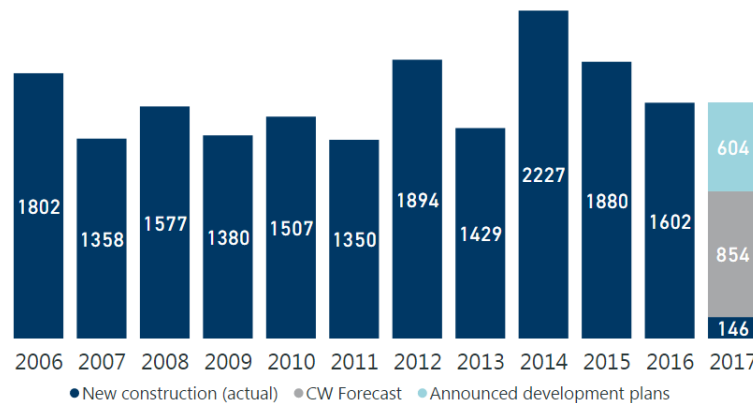
**EXISTING QUALITY
RETAIL SPACE
(RUSSIA)**

1

mn sq.m

**NEW CONSTRUCTION
FORECAST FOR 2017**

NEW CONSTRUCTION IN RUSSIA, '000 SQ.M



In Q1 2017, 3 retail schemes with total GLA of 146,000 sq.m were delivered to the market. The biggest shopping centre in the city was opened in Lipetsk – Riviera (GLA – 61,000 sq.m).

Although the new construction volume will keep decreasing in 2017-2018, the first signs of market growth have been registered. Developers are announcing the start of or forthcoming start of new projects' construction. However, this won't have any visible effect in a short-term perspective – we expect construction volume growth not earlier than 2019 when all these announced projects will be delivered to the market.

Developers seem to have changed their focus to the distant regions. For instance, construction activity has been noted in Vladivostok, Khabarovsk, Grozny.

SHOPPING CENTRES. MOSCOW AND MOSCOW REGION

NO SHOPPING CENTRES WERE OPENED IN MOSCOW IN Q1 2017

The market shows the first signs of revival – construction of new objects is announced.

MOSCOW:

4.9

mn sq.m

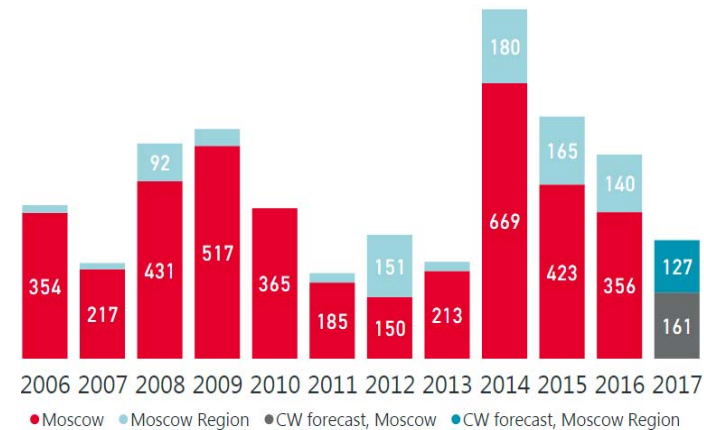
**QUALITY RETAIL
SPACE IN SHOPPING
CENTRES**

161

'000 sq.m

**NEW CONSTRUCTION
FORECAST FOR 2017**

NEW CONSTRUCTION IN MOSCOW AND MOSCOW REGION, '000 SQ.M



No new shopping centres were opened in Moscow and Moscow region in Q1 2017. This situation is not unique for the market – e.g., last year and in 2013 there were also no new openings in Q1.

The biggest share of the projects (around 90% of all retail space in the shopping centres under construction) is expected to be delivered to the market in the second half of 2017. The largest project is Vegas Kuntsevo (GLA – 119,467 sq.m).

The Moscow market is showing the trend of moderate recovery. In Q1 2017, the construction of a large-scale project located in the New Moscow started – Salaris (GLA – 105,000 sq.m).

SHOPPING CENTRES. MOSCOW AND REGIONS

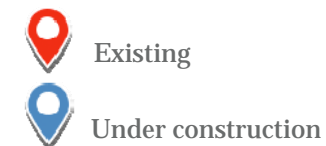
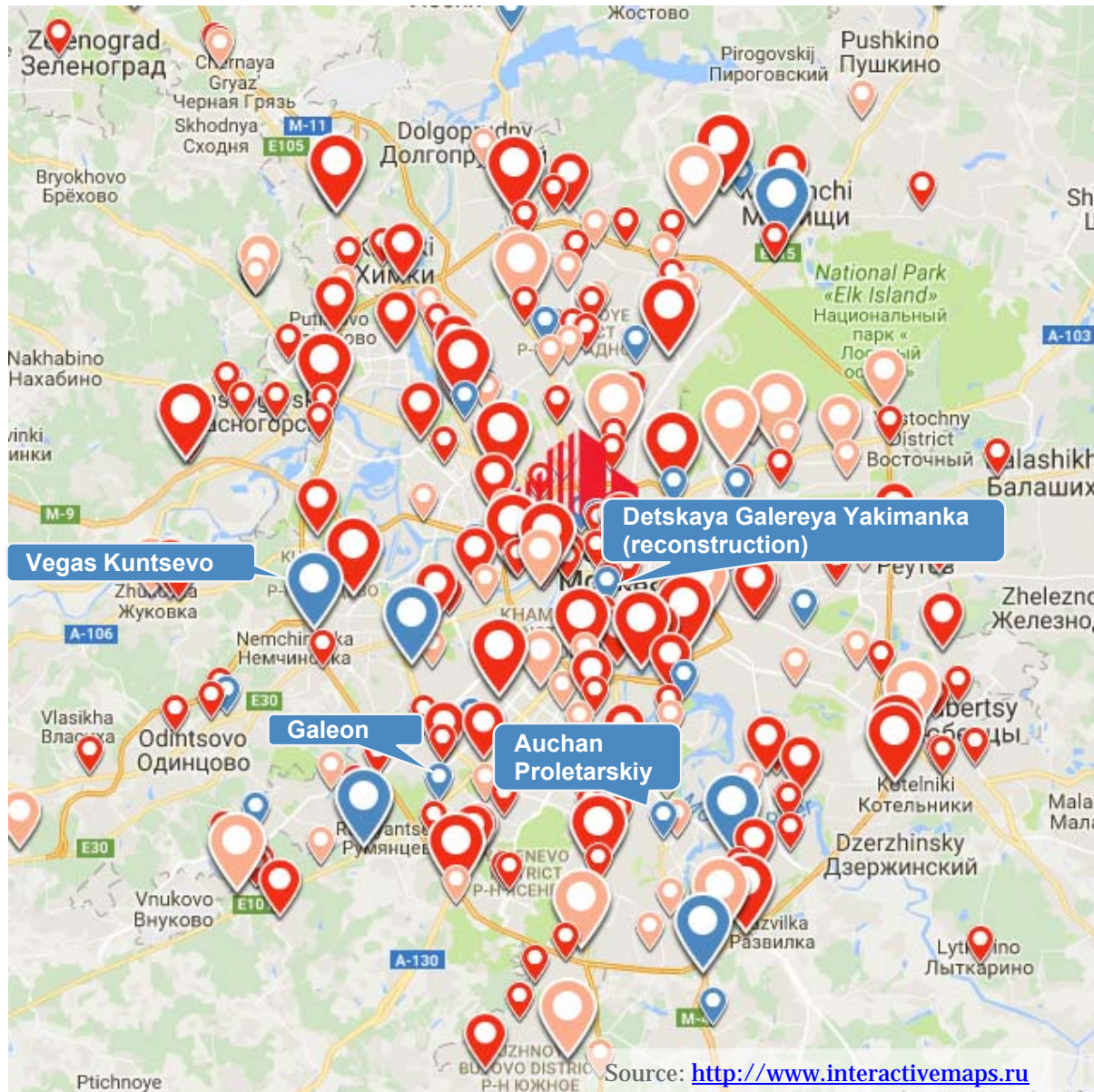
SHOPPING CENTRES DELIVERED TO THE MARKET IN Q1 2017 AND THE PIPELINE FOR 2017

CITY	PROPERTY NAME *	RETAIL GLA, SQ.M	DELIVERY
Moscow	Auchan Proletarsky	23,667	Q2
Moscow	Vegas Kuntsevo	119,467	Q3
Moscow	Detskaya Galereya Yakimanka (reconstruction)	4,000	Q3
Moscow	Galeon	13,700	Q4
Total GLA Moscow, 2017		160,831	
Vidnoe	Vidnoe Park	70,000	Q2
Mytishi	4Daily	25,000	Q2
Mytishi	SC in Mytishi	144,000	Q4
Pushkino	Pushkinskiy	32,000	Q4
Odintsovo	Homeland	19,000	Q4
Total GLA Moscow Region, 2017 (announced plans)		290,000	
Total GLA Moscow and Moscow Region, 2017 (announced plans)		450,834	

CITY	PROPERTY NAME **	RETAIL GLA, SQ.M	DELIVERY
Voronezh	Center Galerei Chizhova (phase 3)	60,000	Q1
Novosibirsk	Edem	25,000	Q1
Lipetsk	Riviera	61,000	Q1
Total GLA (without Moscow and Moscow region), 2017		146,000	
Togliatti	Aquarel	41,140	Q2
Orenburg	Armada Capital	67,358	Q3
Rostov-on-Don	Megamag (phase 2)	57,000	Q3
Novosibirsk	Evropeiskiy	45,000	Q3
Kursk	Evropa (phase 2)	107,000	Q4
Krasnoyarsk	SC on Severnoe sh. (Solontsy)	106,450	Q4
Lipetsk	Evropa (phase 2)	45,300	Q4
Orenburg	Armada (phase 3)	44,660	Q4
Total GLA Russia (without Moscow and Moscow region), announced development plans for 2017		1,076,386	

* The table includes all major quality projects in Moscow and Moscow Region planned for delivery in 2017.

** The table includes all quality projects completed in Q1 2017 and the largest (GLA 40,000+ sq. m) projects announced for delivery later in 2017.



Names of the projects planned for delivery in 2017 are indicated on the map.

SHOPPING CENTRES. MOSCOW

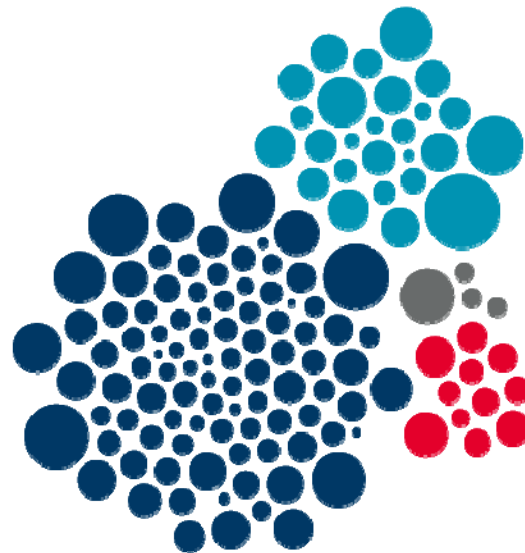
VACANCY RATE REMAINS STABLE DESPITE NEW CONSTRUCTION VOLUME

11%

Average vacancy rate

IN 2017 OCCUPANCY LEVEL WILL BE AT THE SAME LEVEL AS IN 2016 – 12%. VACANCY RATE IN THE EXISTING SHOPPING CENTRES WILL GRADUALLY DECREASE. BUT ADDITIONAL RETAIL SPACE WILL BE DELIVERED TO THE MARKET, WHICH WILL NOT ALLOW THE INDICATOR TO DECLINE SIGNIFICANTLY.

MARKET STRUCTURE AND VACANCY RATE, Q1 2017



Vacancy rate* by shopping center type:

- Prime: 2-3% (successful shopping centres in prime location)
- Sustainable: 7-8% (opened more than 2 years ago, with a loyal target audience and balanced tenant mix)
- Opened in 2014-2016: 20-25%
- Announced to be opened in 2017: 35-40% (C&W estimation)

Bubble size is the size of each shopping center.

* Calculation is based on the actual vacant space in shopping centres, and not according to signed lease contracts.

SHOPPING CENTRES. MOSCOW

A SHOPPING CENTER NEEDS AT LEAST 2 YEARS TO STABILIZE

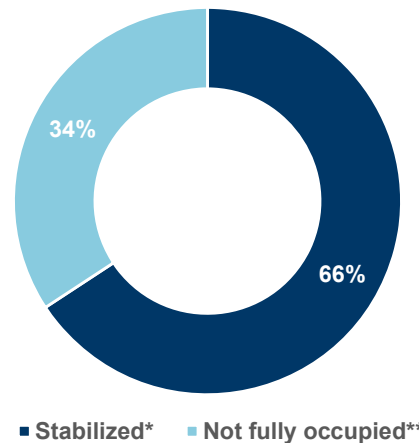
Shopping centers that were opened before the crisis continue to increase their occupancy rate. However, some of them haven't yet stabilized the vacancy rate and rental flows.

15%

Average vacancy rate

IN SHOPPING CENTRES OPENED IN Q1 2014 – Q1 2015

RETAIL SCHEMES OPENED IN Q1 2014 – Q1 2015



* Vacancy rate less than 10%
** Vacancy rate more than 14%

Due to a high competition level and the current economic situation, the time period needed for a shopping centre to stabilize is increasing. Before 2014, the average time required was 1-1.5 years. Now even after two years, the vacancy rate in a shopping centre may remain high and the project can still be looking for its market niche due to individual specific characteristics.

The properties opened during the crisis period with a noticeably high vacancy rate and that have been operating for more than two years, are slowly increasing the occupancy level. 2/3 of these objects can now be classified as stabilized (vacancy rate is less than 10%). 1/3 of these shopping centres have been in the process of stabilizing more than 2 years (vacancy rate is more than 14%).

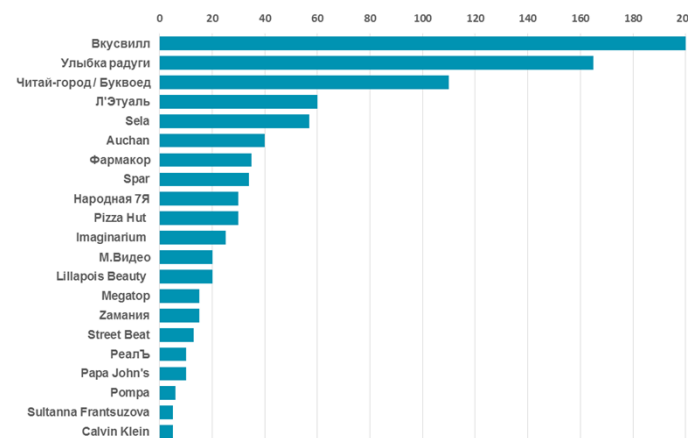
RETAILERS

LOCAL DEVELOPMENT AND INTERNATIONAL EXPANSION

RUSSIAN RETAILERS THAT ANNOUNCED INTERNATIONAL EXPANSION PLANS



RETAILERS DEVELOPMENT PLANS FOR 2017 (RUSSIA) *



* number of new shops to be opened (information from open sources)

Both large and small retailers continue to announce development plans. Retail chains are developing in their “home” regions and are also expanding in new regions.

Recently, some of Russian retail operators announced new store openings in foreign countries. In general, they are entering CIS countries first and USA and European countries after. There are several factors stimulating retailers to enter new markets – ruble devaluation and growing level of services, which allows local players to be competitive internationally.

COMMERCIAL TERMS

PRIME INDICATOR – POTENTIAL GROWTH BY THE END OF 2017

The prime rental rate has a potential to grow slightly by the end of the year. However, there are no drivers for the average market rental rate to change.

145

‘000 / sq.m / year

**PRIME SHOPPING
MALL RENTAL RATE
INDICATOR***
MOSCOW, Q1 2017

After a tough 2016, this year the effect from the consumer market stabilization will be noticeable.

However, in terms of limited resources customers have a very rational approach towards money spending – they are more focused on target purchases, price criterion is the determining factor.

Therefore, we will see different growing points rather than total turnover growth of all retailer categories.

The first signs showing a recovery of demand aren't enough for serious changes in the structure of commercial terms in the market as a whole. There is still one potential factor for rental flow growth – rental payment that depends on a retail turnover.

Prime shopping centers were the last ones to review the commercial terms and give preferences to the tenants in 2015. Now they are the first ones to react to the market recovery.

Due to a more noticeable market segmentation, successful objects will maintain and increase footfalls and conversion, which can lead to a review of rental payments upwards when the period of temporary discounts ends.

However, in 2017 even this trend is unlikely to be widespread – only individual projects will stimulate the growth of the average indicator in the prime segment.

* Prime shopping mall rental rate indicator - base asking rental rate for a 100 sq.m gallery unit on the ground floor of prime shopping centres.

WAREHOUSE & INDUSTRIAL

- In Moscow, the market is expected to remain in balance with fewer completions matched by weak demand. Rental rate and vacancy rate are stable.
- The demand for warehouse premises is high in the regions, construction activity is increasing.



Moscow

(Class A)

	Q1 2017	2017 (forecast)
Supply <i>'000 sq.m</i>	9,590	9,980
New construction <i>'000 sq.m</i>	94	481
Vacancy rate	10%	9.5%
Rental rate* <i>(RUB per sq. m rep year)</i>	3 650	3 650
Take up <i>'000. sq.m</i>	159	800

Regions

(Class A)

	Q1 2017	2017 (forecast)
Supply <i>'000. sq.m</i>	6,350	6,870
New construction <i>'000. sq.m</i>	53	525
Take up <i>'000. sq.m</i>	93	450

* Rental Rate excluding OPEX, utilities, VAT

Source: Cushman & Wakefield

TRENDS

NO SURPRISES IN Q1 2017

Tenant demand and development activity was weak in Q1, which is typical for this time of year. Rental rate and vacancy rate remained unchanged.

- **Rental rates are stable, we expect a potential growth not earlier than 2018.**
- **Decreasing construction is partly compensating the low demand.**

Current demand for warehouse premises remains stably low. Improving situation in the retail segment has not affected the market yet. However, a growing interest for warehouse space from light industrial and household goods companies is registered. As for the retail segment – demand remains unchanged.

After a booming construction activity in 2014-2015, new construction will decrease significantly in 2017. In total 460,000 sq.m of warehouse and logistics space will be constructed in Moscow in 2017, a 40% drop year-on-year.

In 2017 new construction will be two times less than the take-up.

Due to a low market activity in the first half of the year and weak demand, the situation in the market will remain stable in Q2-Q3 2017 - an increase in rental growth is unlikely, vacancy rate is expected to remain unchanged.

However, by the end of 2017 a misbalance between low construction activity and recovering demand will lead to vacancy rate decrease and rental increase. The growth will be more evident later in 2018.

TRENDS. MOSCOW REGION

IN Q1 2017 VACANCY RATE AND RENTAL RATE REMAINED STABLE

10%

**VACANCY RATE
CLASS A, Q1 2017**

3 650

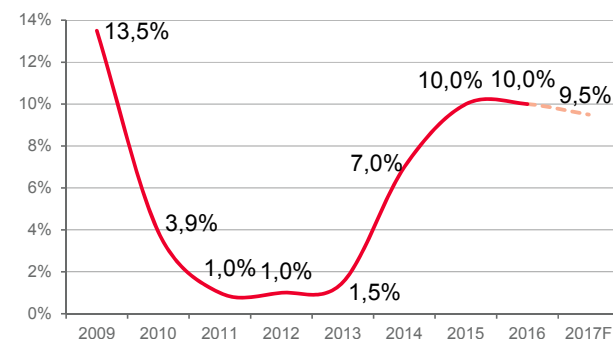
RUB / sq.m / year

**NET RENTAL RATE*
CLASS A, Q1 2017**

* Rental Rate excluding OPEX, utilities, VAT

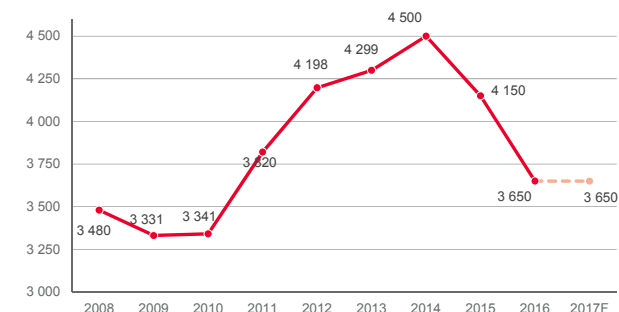
High vacancy rate and stably weak demand are the two factors influencing the market in the beginning of 2017. Having realized that the policy of price reduction is not effective, the landlords are decreasing the new construction activity. In the short-term perspective this can lead to vacancy rate reduction, in the mid-term – to rental rate increase.

VACANCY RATE, CLASS A



The demand for warehouse space is expected to start growing by the end of 2017-beginning of 2018. Stagnation in the retail segment is almost over and retailers are back with expansion plans.

NET RENTAL RATE*, CLASS A (RUB/ SQ.M/ YEAR)



NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

THE DECREASE OF TAKE UP AND NEW CONSTRUCTION

101

'000 sq.m
**NEW CONSTRUCTION,
Q1 2017 (CLASS A & B)**

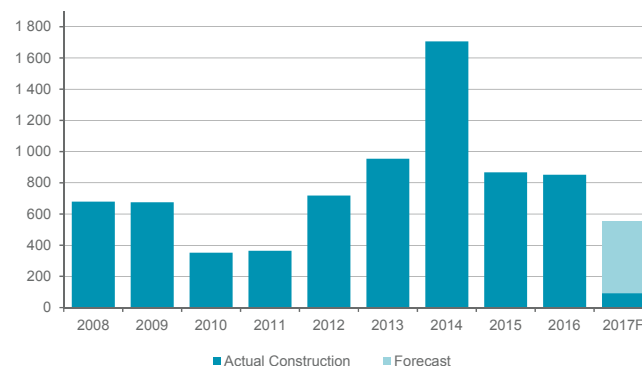
171

'000 sq.m
**TAKE UP, Q1 2017
(CLASS A & B)**

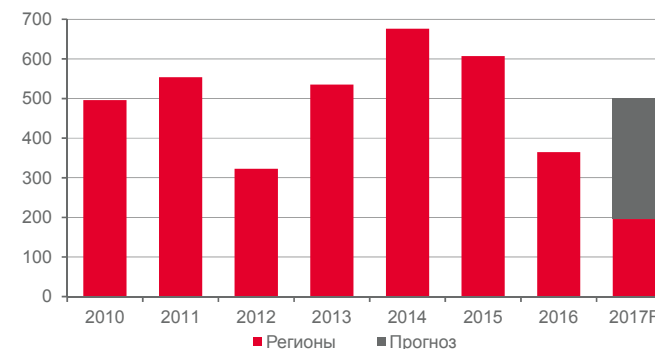
In total, around 500,000 sq.m of warehouse and logistics space will be constructed in Moscow in 2017, a 40% drop year-on-year. 101,000 sq.m of space was delivered to the market in Q1 2017, which is two times higher than the same indicator in 2016.

In Q1 2017, the total volume of lease and sale transactions was 158,000 sq.m, which is two times lower than the same indicator in 2016. Average deal size was 9,000 sq.m. The highest demand was from household goods companies.

**NEW CONSTRUCTION, CLASSES A AND B,
'000 SQ.M**



TAKE UP, CLASSES A AND B, '000 SQ.M



NEW CONSTRUCTION AND DEMAND. REGIONS

NEW CONSTRUCTION AND TAKE UP INCREASED

69

'000 sq.m
**NEW CONSTRUCTION,
Q1 2017 (CLASS A & B)**

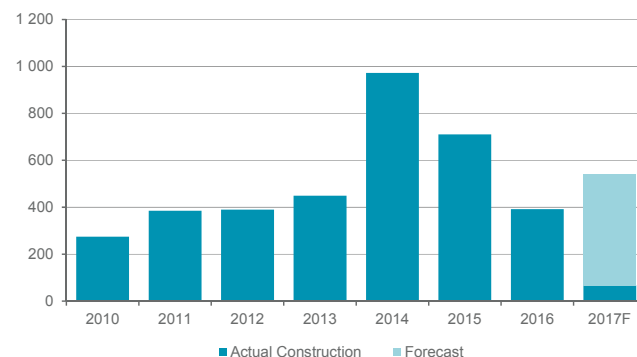
196

'000 sq.m
**TAKE UP, Q1 2017
(CLASS A & B)**

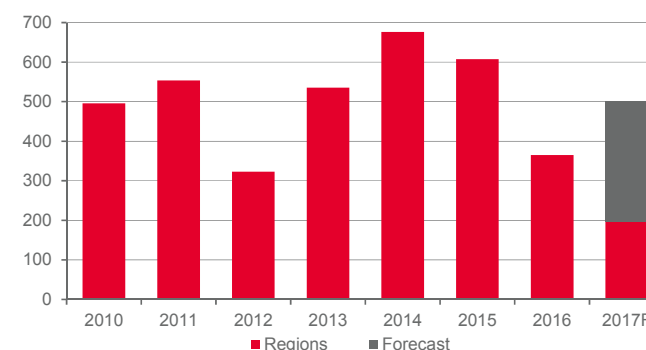
In 2017, new construction volume is expected to increase in the regions - a 30% growth year-on-year.
69,000 sq.m of quality warehouse space was constructed in Q1 2017— up 10% year-on-year.
New warehouse and logistic space was delivered in Leningradsky Region and Primorsky Kray.

In Q1 2017, the total take-up was 196,000 sq.m, which is 2,5 times higher than the same indicator in 2016.
Average deal size was 10,000 sq.m. The highest demand was from the retail segment.

NEW CONSTRUCTION, CLASSES A AND B, '000 SQ.M



TAKE UP, CLASSES A AND B, '000 SQ.M



NEW CONSTRUCTION. MOSCOW AND REGIONS

KEY WAREHOUSE PROPERTIES TO BE COMPLETED IN 2017

101

'000 sq.m

**NEW CONSTRUCTION,
MOSCOW REGION
(CLASS A & B) Q1 2017**

69

'000 sq.m

**NEW CONSTRUCTION,
OTHER REGIONS
(CLASS A & B) Q1 2017**

PROJECT	HIGHWAY	REGION	DISTANCE FROM CITY, KM	TOTAL AREA, '000 SQ.M	DELIVERY
FM Logisitc Electrougli	Gorkovskoe	Moscow	29	50	Q1
Mikhailovskaya Sloboda	Novoryazanskoe	Moscow	20	46,97	Q2-3
Technopark Uspenskiy	Gorkovskoe	Moscow	44	48,23	Q2
LK-Vnukovo II	Kievskoe	Moscow	17	49,18	Q4
Logopark Syn'kovo	Simfeloropolskoe	Moscow	28	28,91	Q2-3
SK Oktavian	Toksovskoe	St. Petersburg	18	18,11	Q1
A Plus Park Perm	Kranokamskaya road	Perm	19	26,37	Q2
Aviapolis Yankovskiy	Vladivostok – port Vostochniy	Vladivostok	48	46,82	Q1, Q3.
A Plus Park Kazan	Mamadyshskiy trakt	Kazan	3	58,31	Q3-4

HOSPITALITY

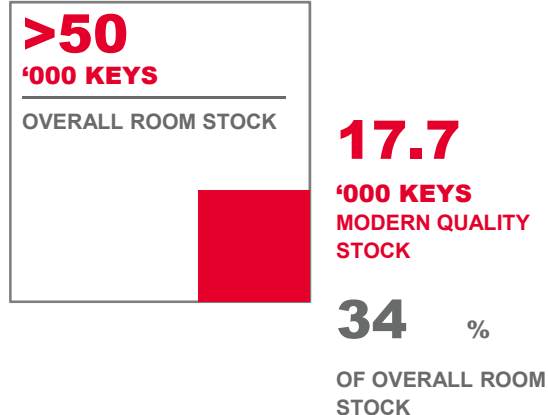
2016 became the year when the Moscow market regained confidence in the future, prompting hotels in every price category to start entertaining bold plans for rate growth in 2017.

2016 AVERAGE OCCUPANCY LEVELS IN SELECT SEGMENTS

LUXURY	UPPER-UPSCALE	MIDSCALE
64.7%	76.1%	78.2%



OVERALL HOTEL ROOM STOCK IN MOSCOW



ROOM STOCK ADDED, Q1 2017

292 KEYS

MODERN QUALITY ROOMS, 2017 (FORECAST)

19,200 KEYS

Source: Cushman & Wakefield

SUPPLY

CONSTRUCTION ACTIVITY ON THE RISE

1,774 NEW MODERN QUALITY
ROOMS TO OPEN IN 2017

new hotel keys

10.2%

EXPECTED GROWTH IN
ROOM STOCK IN 2017

NEW SUPPLY IN 2017

PROJECT	# KEYS	PLANNED OPENING
Hilton Garden Inn Moscow Krasnoselskaya	292	Q1
Ibis Oktyabrskoye Pole	242	Q2
Ibis Budget Oktyabrskoe Pole	120	Q2
Hotel on Ryazansky Prosp. 2	105	Q3
Azimut Moscow Smolenskaya Hotel (former Belgrad)	474	Q3
Holiday Inn Express Paveletskaya	243	Q4
Hyatt Regency Moscow Petrovsky park	298	Q4
TOTAL	1,774	

By the end of Q1, 2017 the modern quality stock increased by 292 keys – with the opening of the Hilton Garden Inn near Krasnoselskaya metro station.

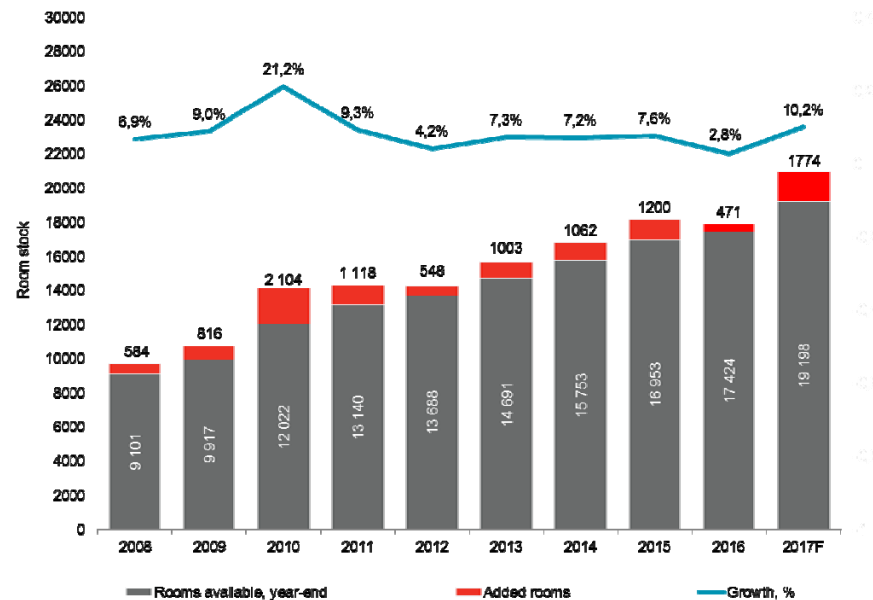
Assuming all planned openings take place as scheduled, the modern quality room stock will grow by 10.2%.

SUPPLY

MARKET GROWS FASTER THAN BEFORE

Hotel market growth rate is higher than the average for the last 10 years.

MODERN QUALITY STOCK GROWTH DYNAMICS



As the graph demonstrates, the 10.2% increase in the hotel supply expected in 2017 is higher than the average annual increase over the last 10 years (8.6%). The main reason for such a hike, in Cushman & Wakefield's view, is the delayed completion of projects started before or in early phases of the latest crisis. A similar peak in new openings (21.2%) was observed in 2010, as the market was bottoming out from the previous crisis in 2008-2009.

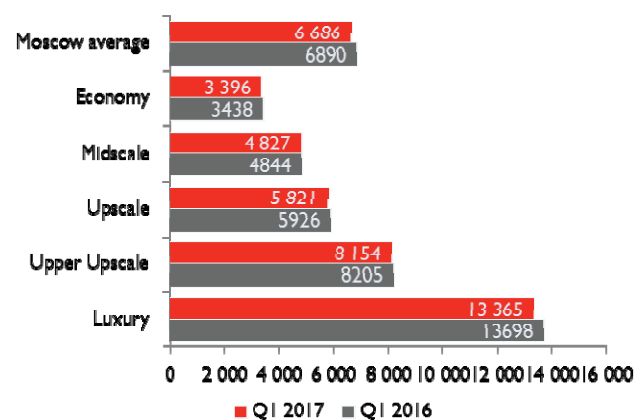
DEMAND

WEAK OCCUPANCY GAINS – AT THE COST OF ADR

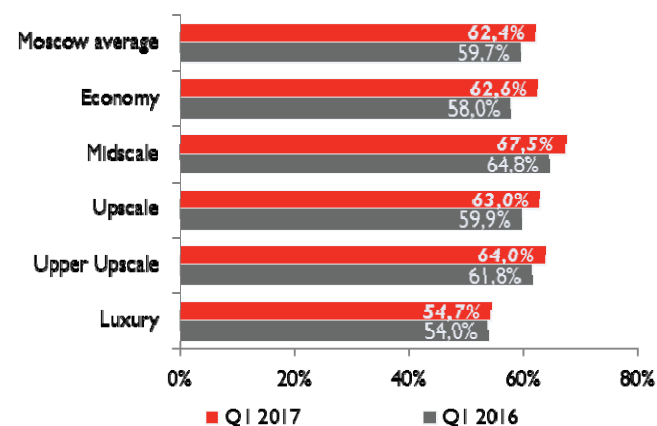
-3.0% AVERAGE ADR
CORRECTION IN Q1, 2017

2.6 bps AVERAGE OCCUPANCY
GAIN IN Q1, 2017

ADR, Q1, 2017–Q1, 2016 (RUB)



OCCUPANCY, Q1, 2017–Q1, 2016 (%)



DEMAND

BEGINNING OF 2017 LOOKS WEAK

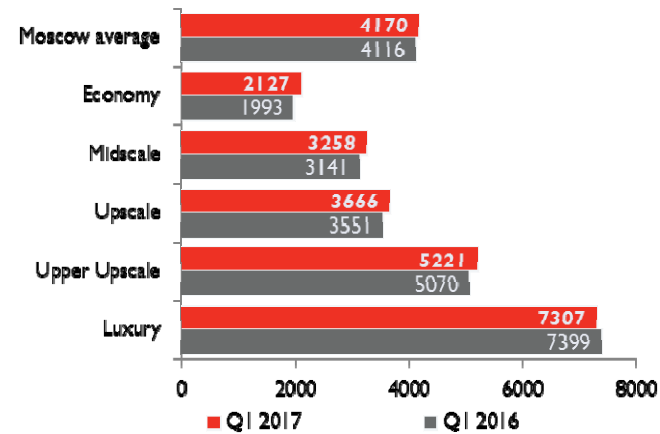
1.3%

AVERAGE REVPAR
GROWTH FOR WIDER
MARKET

6.7%

AVERAGE REVPAR
GROWTH IN ECONOMY
SEGMENT

REVPAR, Q1, 2017-Q1, 2016 (RUB)



As the graph shows, the first-quarter RevPAR results appear sluggish and even controversial – while the Luxury hotels showed negative dynamics (-1.2%), Economy hotels managed to improve their results by 6.7%. All other price segments grew by 3.3% – on average.

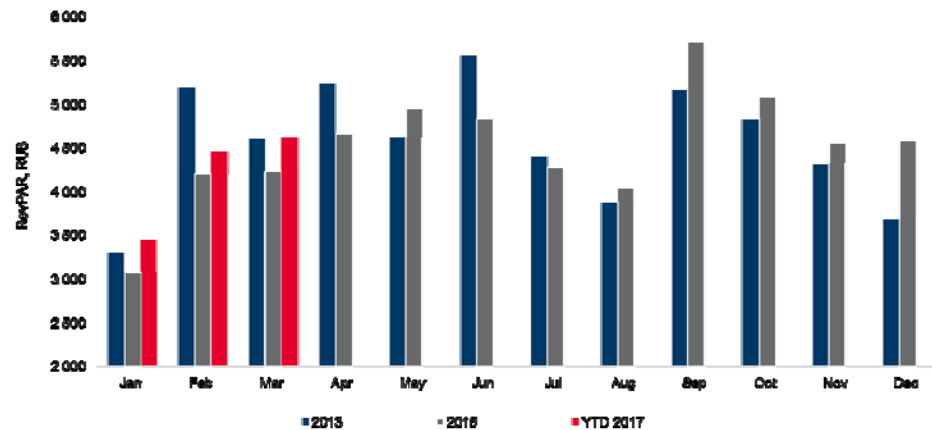
At the same time, due to the Rouble strengthening, in USD terms the Wider market RevPAR grew by 29.4% (driven by the 21.2-percent growth in ADR). Since foreign guests comprise some 30% of all guests accommodated in the Moscow hotels, such an aggressive growth rate starts putting a break on further ADR improvements in Rouble terms.

TRENDS

IS THE BEGINNING OF 2017 REALLY WEAKER THAN THE 'NORM'?

Market recovery – slow but sure.

REVPAR DYNAMICS, 2013-2017



The Q1, 2017 operating results did not confirm hoteliers' hopes for a complete market recovery – as seen from the end of 2016. Occupancy gains were achieved at the expense of the ADR. However, when one compares dynamics of the RevPAR monthly change in 2017 with that of 2013, the most recent benchmark year, positive dynamics are quite visible.

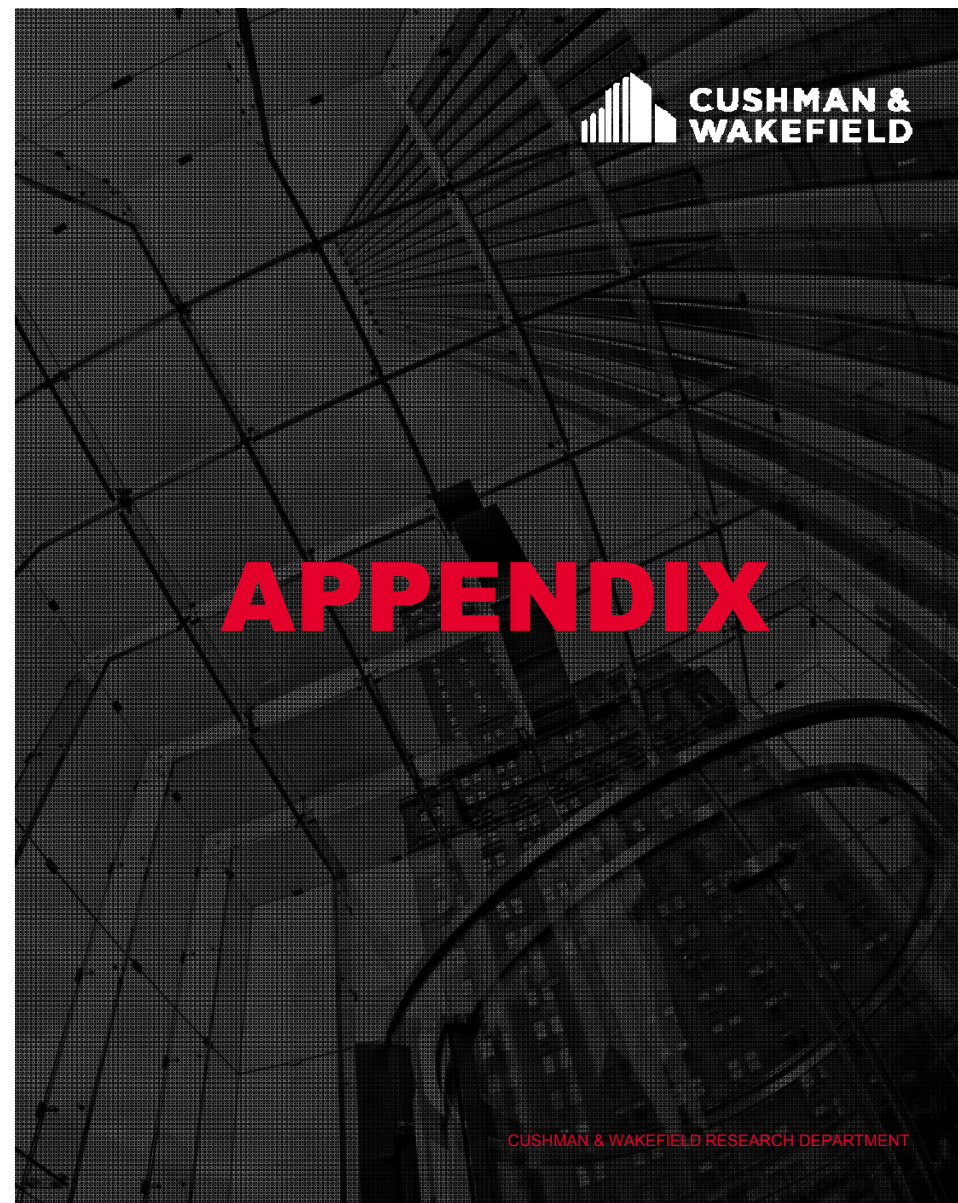
It may be expected that RevPAR growth will speed up in Q2, traditionally a much stronger quarter due to the strong business demand. This year, Q2 will also see an additional boost in demand from the 2017 FIFA Confederations Cup matches to take place in Moscow.



Market indicators Standard lease terms Interactive services

Cushman & Wakefield Research Department provides clients with the most detailed information on the market indicators, including average rental and vacancy rates split by metro stations, administrative districts and submarkets in Moscow, as well as data on planned projects and projects under construction in Russia.
If you need more detailed information please contact the Research Department.

#MARKETBEAT | Q1 2017



APPENDIX

INDICATORS | STANDARD COMMERCIAL LEASE TERMS | INTERACTIVE SERVICES



COMMERCIAL REAL ESTATE MARKET INDICATORS (1)

OFFICES AND SHOPPING CENTRES

The forecast is based on the conservative macroeconomic scenario.

MOSCOW REAL ESTATE MARKET INDICATORS											FORECAST/ПРОГНОЗ		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017	2017	2018	2019
Average annual exchange rate RUB/USD	24,9	31,8	30,4	29,4	31,1	31,9	38,6	61,3	66,8	58,6	59,3	58,5	57,8
MOSCOW OFFICES													
Stock class A, EOP '000 sq m	1 326	1 729	2 021	2 318	2 536	2 684	3 416	3 821	3 972	3 945	4 119	4 244	4 344
Stock class B (B+ and B-), EOP '000 sq m	8 277	9 158	9 781	10 167	10 515	11 227	11 838	12 132	12 375	12 232	12 523	12 648	12 748
New construction, A, '000 sq m	331	403	292	297	219	225	714	327	150	14	225	125	100
New construction, B (B+ and B-), '000 sq m	1 768	881	623	386	348	674	693	394	250	7	150	125	100
Vacancy rate class A	12,8%	23,6%	22,5%	16,8%	14,6%	17,6%	23,8%	31,1%	25,0%	20,0%	20,9%	19,7%	18,1%
Vacancy rate class B (B+ and B-)	6,1%	11,1%	10,4%	8,9%	9,1%	9,8%	10,8%	14,4%	15,9%	13,2%	14,6%	13,9%	12,8%
Take up class A, '000 sq m	456	183	388	638	459	361	324	427	726	121	350	450	550
Take up class B (B+ and B-), '000 sq m	1 237	558	911	1 224	1 398	1 205	937	872	918	468	900	1 000	1 100
Rental rates class A, USD/sq m pa	\$1 092	\$729	\$645	\$733	\$790	\$867	\$772	\$549	\$459	\$468	\$500	\$550	\$640
Rental rates class B (B+ and B-), RUB/sq m pa	20 240	16 141	12 671	13 370	14 624	17 041	18 699	17 820	15 728	13 925	15 500	17 300	19 000
Prime capitalization rate	12,00%	13,00%	9,00%	8,50%	8,75%	8,50%	11,00%	10,50%	10,50%	10,50%	10,00%	9,00%	8,75%
MOSCOW QUALITY SHOPPING CENTERS													
Total stock, EOP, '000 sq m	2 091	2 607	2 973	3 158	3 308	3 480	4 133	4 565	4 914	4 914	5 144	5 244	5 544
New construction, '000 sq m	431	517	365	185	150	173	653	432	349	0	230	100	300
Prime vacancy rate, EOP	3,0%	5,0%	2,1%	0,4%	0,5%	1,2%	1,5%	2,0%	2,5%	2,0%	2,0%	2,0%	2,0%
Prime rental rate indicator, RUB/sq m pa* (until 2016 nominated in USD, paid in RUB by official exchange rate)	99 480	87 368	88 102	105 804	114 959	121 258	127 380	159 432	145 000	145 000	150 000	160 000	180 000
Prime capitalization rate	12,00%	13,00%	10,00%	9,25%	9,50%	9,00%	11,00%	11,00%	11,00%	11,00%	10,50%	9,50%	9,25%

APPENDIX

INDICATORS | STANDARD COMMERCIAL LEASE TERMS | INTERACTIVE SERVICES



COMMERCIAL REAL ESTATE MARKET INDICATORS (2)

WAREHOUSE AND INDUSTRIAL, INVESTMENTS

The forecast is based on the conservative macroeconomic scenario.

MOSCOW REAL ESTATE MARKET INDICATORS											FORECAST/ПРОГНОЗ		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017	2017	2018	2019
WAREHOUSES, MOSCOW REGION													
Stock, class A, EOP '000 sq m	3 723	4 352	4 676	4 933	5 598	6 456	7 852	8 669	9 501	9 594	9 982	10 482	11 082
Stock, class B, EOP '000 sq m	2 060	2 109	2 157	2 264	2 317	2 409	2 688	2 690	2 715	2 724	2 735	2 755	2 775
New construction, class A, '000 sq m	594	629	324	257	664	858	1 396	817	846	94	481	500	600
Vacancy rate class A	2,0%	10,5%	8,0%	1,0%	1,0%	1,5%	7,0%	10,0%	10,0%	10,0%	9,5%	8,0%	7,0%
Rental rates class A, RUB/sq m pa	3 482	3 336	3 342	3 968	4 194	4 308	4 500	4 150	3 650	3 650	3 650	4 100	4 300
Rental rates class B, RUB/sq m pa	3 109	2 859	2 795	3 821	4 039	4 148	4 000	3 800	3 400	3 400	3 600	3 800	3 900
Prime capitalization rate	13,00%	14,00%	10,50%	10,50%	11,50%	11,00%	13,00%	12,75%	12,75%	12,75%	12,00%	11,00%	10,75%
INVESTMENTS													
TOTAL, EUR MN	6 324	2 517	5 840	5 568	5 436	8 336	3 043	3 632	3 382	534	3 900	4 500	6 000
Office, EUR mn	2 149	1 924	3 142	2 652	1 917	3 547	1 830	1 681	1 945	301			
Retail, EUR mn	3 058	450	1 723	1 525	2 586	2 970	639	1 351	709	169			
Warehouse, EUR mn	501	32	658	586	545	1 505	267	340	288	63			
Other, EUR mn	616	111	317	805	388	314	307	260	440	0			
											* Base rental rate for 100 sq m unit on the ground floor of retail gallery of prime shopping mall for fashion retailer		
REAL CAPITAL ANALYTICS													

* Base rental rate for 100 sq m unit on the ground floor of retail gallery of prime shopping mall for fashion retailer

STANDARD COMMERCIAL LEASE TERMS

LEASE TERMS

DURATION OF LEASE

Office: 5 years

Industrial: either short-term (1-3 years) or long-term (5+ years)

Retail: 3-5 years, anchor tenants - 10-25 years.

BREAK OPTIONS

Offices: Possible after 3 years with deposit withdrawal as penalty. After crisis have become very popular. Notice period is 6-9 months. When there is an option to review the rent after the third year, contract can be terminated from both sides.

Retail: a standard lease agreement is not supposed to include break option.

RENTAL PAYMENTS

RENT PAYMENT AND FREQUENCY

Offices and retail: RUB or US\$ per square meter per year, payable due monthly or quarterly in advance.

Industrial: Rubles.

RENT DEPOSIT

Offices: 1-3 months rent equivalent (bank guarantee optional, very seldom however).

Retail: 1-2 months rent equivalent (bank guarantee optional).

Industrial: 1-3 months rent equivalent (bank guarantee optional, very seldom however as landlords as landlords prefer the deposit)

RENT REVIEWS

After crisis have become more popular, negotiable.

INDEXATION

Offices: 7-10% for RUB agreements; 3-5% or at the level of USA / EU CPI.

Retail: if rents in US\$ – US CPI or 5%; if rents are in RUB – Russia' CPI or 8-9%.

Industrial: 8-10%

ENTRANCE FEE

It is possible to pay an extra-fee to "enter the project" – applicable only for prime projects.

Turnover rents (only in **Retail**):

Compound rental rates (fixed rent and a percentage of turnover) are almost always used in shopping centers. Normally, the percentage of turnover varies between 12-15% (fashion), 1-3% for large anchor tenants.

DISPOSAL OF LEASES

ASSIGNMENT AND SUB-LETTING

Offices & Industrial: Usually possible, but subject to negotiation.

Retail: Not common.

SERVICE CHARGES, REPAIRS & INSURANCE

REPAIRS

Tenant: Internal repairs and maintenance.

Landlord: Structural repairs, common areas.

INSURANCE

Tenant: Contents insurance.

Landlord: Building insurance which is normally charged back to tenant via the service charge.

SERVICE CHARGES

Service charge is payable by the tenant at either an 'open book' basis or as a fixed cost.

UTILITY EXPENSES

Often included to service charges, but depends on landlord and different types of projects.

TAXATION

REAL ESTATE TAX

Tenant: None.

Landlord: the amount of tax depends on the region. In Moscow for office and retail: 1.2% of cadastral value in 2015, 1.3% in 2016, 1.4% in 2017 and 1.5% in 2018.

VAT: 18%

MEASUREMENT PRACTICE

Space is measured generally on the BOMA system. Some Landlords have started to apply BTI (Bureau of Technical Inventory) measurements.

APPENDIX

INDICATORS | STANDARD COMMERCIAL LEASE TERMS | INTERACTIVE SERVICES



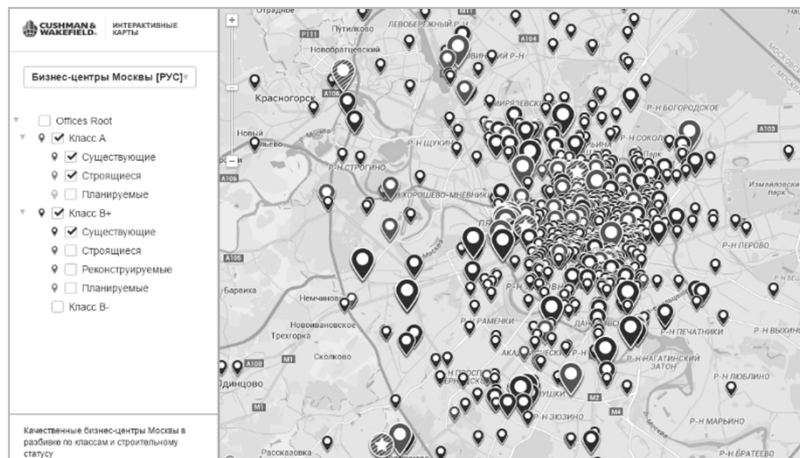
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OUR TEAM

RESEARCH DEPARTMENT | CUSHMAN & WAKEFIELD IN RUSSIA



RESEARCH DEPARTMENT CUSHMAN & WAKEFIELD, RUSSIA



DENIS SOKOLOV

Partner,
Head of Research

Denis.Sokolov@cushwake.com



TATYANA DIVINA

Associate Director,
Deputy Head of Research

Tatyana.Divina@cushwake.com



MARINA SMIRNOVA

Partner,
Head of Hospitality and Tourism

Marina.Smirnova@cushwake.com



YULIA BOGOMOL

Associate Director
Office Research

Yulia.Bogomol@cushwake.com



ALEXANDER KUNTSEVICH

Senior Analyst
Warehouse & Industrial Research

Alexander.Kuntsevich@cushwake.com



EVGENIYA SAFONOVA

Analyst
Retail Research

Evgeniya.Safonova@cushwake.com

*For more
information and
contacts please
visit
CWRUSSIA.RU*

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OUR TEAM

RESEARCH DEPARTMENT | CUSHMAN & WAKEFIELD IN RUSSIA

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